SGI CANADA Insurance Services Ltd.

2005

ANNUAL REPORT

SGI CANADA

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholder and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG LLP have been appointed external auditors. Their responsibility is to report to the shareholder and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Jon Schubert
President

Don Thompson
Vice President
Finance and Administration

February 20, 2006

Actuary's Report

To the Shareholder of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities of SGI CANADA Insurance Services Ltd. for its consolidated statement of financial position at December 31, 2005 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.

A Malyon

Andrea Malyon
Fellow, Canadian Institute of Actuaries

February 20, 2006

Auditors' Report

To the Shareholder of SGI CANADA Insurance Services Ltd.

We have audited the consolidated statement of financial position of SGI CANADA Insurance Services Ltd. as at December 31, 2005 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 20, 2006

Consolidated Statement of Financial Position

December 31	2005	2004
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 10,795	$ 7,891
Accounts receivable (note 4)	21,874	18,566
Deferred policy acquisition costs	4,576	4,591
Reinsurers' share of unearned premiums (note 7)	749	2,069
Future income taxes (note 11)	2,809	71
Goodwill	481	481
Investments (note 5)	128,929	87,700
Unpaid claims recoverable from reinsurers (notes 7 & 8)	29,666	31,915
Property, plant and equipment (note 6)	24	56
	$ 199,903	$ 153,340
Liabilities		
Accounts payable	$ 6,622	$ 3,210
Premium taxes payable	247	444
Amounts due to reinsurers (note 7)	12,701	2,785
Unearned reinsurance commissions	155	150
Unearned premiums	20,860	22,190
Provision for unpaid claims (notes 8 & 16)	104,446	98,671
	145,031	127,450
Non-controlling interest	**1,623**	1,236
Shareholder's equity		
Share capital (note 12)	27,254	27,254
Contributed surplus (note 12)	32,487	7,487
Deficit	(6,492)	(10,087)
	53,249	24,654
	$ 199,903	$ 153,340

Commitments and contingencies (note 18)

(see accompanying notes)

Consolidated Statement of Operations and Deficit

year ended December 31	2005	2004
	(thousands of $)	
Gross premiums written	$ 48,553	$ 53,582
Net premiums written	$ 45,398	$ 48,498
Net premiums earned (note 7)	$ 45,189	$ 47,208
Claims incurred (note 7)	23,109	35,687
Commissions (note 7)	9,120	8,457
Administrative expenses (note 7)	4,684	4,534
Premium taxes (note 7)	1,698	1,774
Facility Association participation (note 16)	(1,058)	(1,362)
Total claims and expenses	37,553	49,090
Underwriting profit (loss)	7,636	(1,882)
Investment earnings (note 9)	5,416	6,223
Income before loss from service agreement, income taxes and non-controlling interest	13,052	4,341
Loss from service agreement (note 10)	9,705	–
Income before income taxes and non-controlling interest	3,347	4,341
Income taxes (recovery) (note 11)	(884)	1,218
Income after income taxes and before non-controlling interest	4,231	3,123
Non-controlling interest	636	322
Net income	3,595	2,801
Deficit, beginning of year	(10,087)	(12,888)
Deficit, end of year	$ (6,492)	$ (10,087)

(see accompanying notes)

Consolidated Statement of Cash Flows

year ended December 31	2005	2004
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 3,595	$ 2,801
Non-cash items:		
Amortization	730	605
Realized gain on disposal of investments	(754)	(1,977)
Future income taxes	(2,738)	102
Loss from service agreement	9,705	–
Income from investments accounted for on the equity basis	(147)	(168)
Non-controlling interest	387	322
Change in non-cash operating items (note 13)	8,152	11,058
	18,930	12,743
Investing activities		
Purchases of investments	(224,079)	(139,219)
Proceeds on sale of investments	183,053	126,474
Purchases of property, plant and equipment	–	(20)
	(41,026)	(12,765)
Financing activities		
Contributed surplus	25,000	–
Increase (decrease) in cash and cash equivalents	**2,904**	(22)
Cash and cash equivalents, beginning of year	7,891	7,913
Cash and cash equivalents, end of year	$ 10,795	$ 7,891
Supplemental cash flow information:		
Income taxes paid	$ 2,462	$ 307

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2005

1. NATURE OF OPERATIONS

SGI CANADA Insurance Services Ltd. (the Corporation) conducts a property and casualty business directly in Manitoba, in Ontario through its wholly owned subsidiary, Coachman Insurance Company (Coachman), and in Prince Edward Island, Nova Scotia and New Brunswick through its 75% owned subsidiary, the Insurance Company of Prince Edward Island.

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Ontario and Prince Edward Island, which represent approximately 54% (2004 – 62%) of the Corporation's consolidated premiums earned in 2005.

The Corporation was incorporated July 18, 1990, under *The Business Corporations Act of Saskatchewan*. The Corporation holds a Saskatchewan provincial insurers' licence under *The Saskatchewan Insurance Act* and is licensed to conduct business in Manitoba, Ontario and Prince Edward Island.

Saskatchewan Government Insurance (SGI CANADA) owns 100% of the Corporation and the Corporation's financial results are included in the consolidated financial statements of SGI CANADA.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation, its 100%-owned subsidiary, Coachman Insurance Company (Coachman), and its 75%-owned subsidiary, the Insurance Company of Prince Edward Island (ICPEI). All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner, as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Investments

Bonds and debentures are recorded at amortized cost. Treasury bills and common shares are recorded at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on their trade date.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Investments are written down when there is a decline in value that is other than temporary.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives of three years for computer hardware and software and five years for other equipment.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of

adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for unpaid claims (note 8).

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include $8,215,000 (2004 - $5,058,000) in treasury bills earning an average effective interest rate of 3.3% (2004 – 2.5%).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	2005	2004
	(thousands of $)	
Financed premiums receivable	$ 7,359	$ 7,756
Facility Association receivable	4,366	4,915
Due from brokers	1,926	1,809
Due from reinsurers	1,139	1,706
Service agreement receivable (note 10)	1,235	1,157
Accrued investment income	1,501	811
Prepaid expenses	76	68
Other	4,272	344
Total accounts receivable	$ 21,874	$ 18,566

Financed premiums receivable represent the portion of our policyholders' monthly premium payments that are not yet due. The majority of our policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized over the period of the policy.

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	2005		2004	
	(thousands of $)			
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 8,920	$ 8,920	$ 4,954	$ 4,954
Bonds and debentures	118,676	118,989	81,117	81,949
Preferred shares	-	-	290	297
Canadian common shares	169	268	169	214
	127,765	128,177	86,530	87,414
Investments accounted for on the equity basis	1,164	1,164	1,170	1,170
Total investments	$ 128,929	$ 129,341	$ 87,700	$ 88,584

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:

Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 3.3% (2004 - 2.6%) and an average remaining term to maturity of 167 days (2004 - 96 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 5% of the market value of the combined short-term investment and bond portfolios.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:

The Corporation's investment policy states that the minimum quality standard for the purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 5% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 25% of the market value of the bond portfolio.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

Term to maturity (years)	2005 Carrying Value	2005 Average Effective Rates	2004 Carrying Value	2004 Average Effective Rates
	(thousands of $)			
Government of Canada:				
One or less	$ –	–	$ 50	6.5%
After one through five	35,224	3.8%	30,996	4.5%
After five	29,868	4.6%	14,523	4.7%
Canadian provincial:				
One or less	1,032	5.3%	–	–
After one through five	10,568	5.3%	10,047	5.1%
After five	16,276	5.2%	5,944	5.7%
Canadian corporate:				
After one through five	16,875	4.5%	13,590	4.8%
After five	8,833	5.4%	5,967	5.2%
Total bonds & debentures	$ 118,676		$ 81,117	

For bonds and debentures, the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iii) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 4.0% (2004 – 3.9%).

The fair value of common shares is considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iv) Investments accounted for on the equity basis:

The Corporation has a 25% ownership in three companies consisting of Charlie Cooke Insurance Agency Ltd., Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	2005 (thousands of $)			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	$ 14	$ 11	$ 3	$ 6
Computer hardware, software and other equipment	801	780	21	50
Total	$ 815	$ 791	$ 24	$ 56

Amortization for the year is $32,000 (2004 - $46,000) and is included in administrative expenses on the consolidated statement of operations and deficit.

7. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limit the liability of the Corporation to a maximum amount of $250,000 on any one loss and $250,000 on any one catastrophe.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	2005	2004
	(thousands of $)	
Premiums earned	$ 4,477	$ 4,944
Claims incurred	1,616	14,953
Commissions and premium taxes	245	326
Administrative expenses	47	47

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the statement of financial position date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

Through its subsidiary, the Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the statement of financial position date totals $1,578,000 (2004 - $1,780,000).

Changes in the estimate for the provision for unpaid claims are as follows:

	2005	2004
	(thousands of $)	
Net unpaid claims - beginning of year	$ 66,756	$ 56,967
Provision for unpaid service agreement claims	(1,157)	(1,275)
Payments made during the year relating to prior year claims	(14,593)	(14,489)
Deficiency (excess) relating to prior year estimated unpaid claims	(7,066)	2,250
Net unpaid for claims of prior years	43,940	43,453
Provision for claims occurring in the current year	19,900	22,146
Provision for unpaid service agreement claims (note 10)	10,940	1,157
Net unpaid claims - end of year	$ 74,780	$ 66,756

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

	2005			2004		
	(thousands of $)					
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 79,905	$ 25,263	$ 54,642	$ 87,873	$ 29,730	$ 58,143
Property	6,407	1,775	4,632	4,474	778	3,696
Liability	7,194	2,628	4,566	5,167	1,407	3,760
Service agreement (note 10)	10,940	–	10,940	1,157	–	1,157
Total	$ 104,446	$ 29,666	$ 74,780	$ 98,671	$ 31,915	$ 66,756

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	2005	2004
	(thousands of $)	
Income from interest	$ 3,806	$ 3,319
Realized gain on sale of investments	760	1,975
Income from premium financing	694	737
Income from investments accounted for on the equity basis	147	168
Income from dividends	9	24
Total investment earnings	$ 5,416	$ 6,223

10. LOSS FROM SERVICE AGREEMENT

During 1998, a subsidiary of the Corporation, Coachman, issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid Coachman an annual premium under this policy between $100,000 and $120,000. At the same time, Coachman made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of Coachman, the rental company was required to report to Coachman quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to Coachman, nor had it deposited the correct amounts in the trust account. Coachman has estimated the provision for unpaid claims relating to the insurance policy to be $10,940,000 (note 8). A receivable has also been recorded of $1,235,000 (note 4) based on the balance in the trust account at Dec. 31, 2005. The shortfall of $9,705,000 has been charged to current year operations.

Coachman is attempting to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

11. INCOME TAXES

The Corporation's provision for (recovery of) income taxes is as follows:

	2005	2004
	(thousands of $)	
Current	$ 1,854	$ 1,116
Future	(2,738)	102
Total income taxes (recovery)	$ (884)	$ 1,218

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

	2005	2004
	(thousands of $)	
Income before income taxes and non-controlling interest	$ 3,347	$ 4,341
Combined federal and provincial tax rate	38.84%	37.62%
Computed tax expense based on combined rate	$ 1,300	$ 1,633
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(58)	(85)
Non deductible expenses for tax purposes	20	20
Valuation allowance	(2,149)	(283)
Other	3	(67)
Total income taxes (recovery)	$ (884)	$ 1,218

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2005	2004
	(thousands of $)	
Future income tax assets		
Tax loss carryforward	$ 8,446	$ –
Provision for unpaid claims	2,093	9,404
Unearned premiums	–	3,889
Other	34	35
	10,573	13,328
Valuation allowance	(5,926)	(8,075)
Total future income tax assets	4,647	5,253
Future income tax liabilities		
Bonds and debentures	1,120	1,103
Unpaid claims recoverable from reinsurers	718	3,482
Reinsurers' share of unearned premiums	–	597
Total future income tax liabilities	1,838	5,182
Net future income tax assets	$ 2,809	$ 71

The Corporation has non-capital loss carryforwards of approximately $23,385,000 (2004 – nil) that expire in 2015.

12. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of non-voting first preferred shares. At the end of 2005 there were 6,155,616 (2004 - 6,155,616) common shares issued. During 2005, the Corporation's parent, SGI CANADA, contributed $25 million (2004 – nil) in cash, which is reflected as contributed surplus on the statement of financial position.

13. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	2005	2004
	(thousands of $)	
Accounts receivable	$ (3,231)	$ 640
Deferred policy acquisition costs	15	(290)
Reinsurers' share of unearned premiums	1,320	(140)
Unpaid claims recoverable from reinsurers	2,249	(11,407)
Accounts payable	3,412	402
Premium taxes payable	(197)	(200)
Amounts due to reinsurers	9,916	128
Unearned reinsurance commissions	5	7
Unearned premiums	(1,330)	722
Provision for unpaid claims	(4,007)	21,196
	$ 8,152	$ 11,058

14. FAIR VALUE

The fair value of financial assets and liabilities other than investments (note 5), unpaid claims and unpaid claims recoverable from reinsurers (note 8) approximate carrying value due to their immediate or short-term nature.

15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions and amounts outstanding at year end are as follows:

Category	2005	2004
	(thousands of $)	
Accounts receivable	$ 21	$ 7
Investments	2,384	1,210
Investment earnings	96	90

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 7). Administrative and claim adjusting expenses incurred by SGI CANADA and charged to the Corporation were $2,371,000 (2004 - $2,147,000) and accounts payable are $127,000 (2004 - $427,000). Related to the Corporation's reinsurance agreement with SGI CANADA is $12,202,000 (2004 – nil) of accounts payable, $1,121,000 (2004 – nil) of accounts receivable and $288,000 (2004 – nil) of interest paid, included in investment earnings.

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd., pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

Transactions and amounts outstanding at year end are as follows:

Category	2005	2004
	(thousands of $)	
Accounts receivable	$ 487	$ 497
Accounts payable	882	200
Premiums written	8,451	8,748
Claims incurred	411	435
Commissions	2,034	1,409
Premiums financed	3,384	3,444

In 2003, the Corporation entered into an agreement with SGI CANADA through its subsidiary, Coachman, whereby SGI CANADA would transfer to Coachman net amounts recoverable after Dec. 31, 2002 on reinsurance for adverse loss development on Coachman losses occurring prior to April 30, 2001. Coachman will reimburse SGI CANADA for any costs it may incur under the reinsurance contract. At Dec. 31, 2005, $1,859,000 (2004 - $2,293,000) was accrued under this reinsurance policy and has reduced claims incurred.

Other related party transactions are disclosed separately in the notes to the financial statements.

16. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in various automobile risk sharing pools in Ontario and Prince Edward Island, whereby companies in the industry share resources to provide insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	2005	2004
	(thousands of $)	
Gross premiums written	$ 1,486	$ 2,340
Net premiums earned	$ 1,705	$ 3,048
Claims incurred	305	1,236
Commissions	175	126
Premium taxes	58	100
Administrative expenses	223	406
Total claims and expenses	761	1,868
Underwriting profit	944	1,180
Investment earnings	114	182
Net income	$ 1,058	$ 1,362
Facility Association receivable	$ 4,367	$ 4,915
Unearned premiums	764	982
Provision for unpaid claims	3,469	4,187
Facility Association payable	3,504	–

17. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through three operating segments: Manitoba, Ontario and the Maritimes (where the Maritimes represent Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

(thousands of $)

2005	Manitoba	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 11,749	$ 25,436	$ 8,213	$ –	$ 45,398
Net premiums earned	$ 11,323	$ 25,518	$ 8,348	$ –	$ 45,189
Claims incurred	7,482	13,649	1,978	–	23,109
Other expenses	4,494	7,192	2,758	–	14,444
Underwriting profit (loss)	(653)	4,677	3,612	–	7,636
Investment earnings	1,100	3,502	814	–	5,416
Income before the following:	447	8,179	4,426	–	13,052
Loss from service agreement	–	9,705	–	–	9,705
Income taxes (recovery)	103	(2,689)	1,702	–	(884)
Non-controlling interest	–	–	–	636	636
Net income	$ 344	$ 1,163	$ 2,724	$ (636)	$ 3,595
Total assets	$ 66,149	$113,667	$29,190	$ (9,103)	$199,903
Shareholder's equity	$ 29,644	$ 17,313	$ 7,915	$ (1,623)	$ 53,249

(thousands of $)

2004	Manitoba	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 11,010	$ 29,129	$ 8,359	$ –	$ 48,498
Net premiums earned	$ 10,493	$ 27,866	$ 8,849	$ –	$ 47,208
Claims incurred	5,612	24,542	5,533	–	35,687
Other expenses	4,339	7,103	1,961	–	13,403
Underwriting profit (loss)	542	(3,779)	1,355	–	(1,882)
Investment earnings	1,186	4,333	704	–	6,223
Income before the following:	1,728	554	2,059	–	4,341
Income taxes (recovery)	580	(128)	766	–	1,218
Non-controlling interest	–	–	–	322	322
Net income	$ 1,148	$ 682	$ 1,293	$ (322)	$ 2,801
Total assets	$ 28,602	$106,487	$24,885	$ (6,634)	$153,340
Shareholder's equity	$ 8,482	$ 11,150	$ 6,258	$ (1,236)	$ 24,654

18.COMMITMENTS AND CONTINGENCIES

The Corporation's subsidiary, Coachman, has a lease for its office premises expiring Dec. 31, 2008 at an annual rent of $180,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

19.COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2004 balances have been reclassified to conform to 2005 financial statement presentation.